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IMPACT OF FINANCIAL ACCOUNTING SYSTEM ON CORPORATE PERFORMANCE OF MANUFACTURING FIRMS IN NIGERIA

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ABSTRACT

This study examined the impact of financial accounting system on corporate performance of manufacturing firms in Nigeria. The reason for this study was because financial report is expected to show the economic and financial situation of the company, in order to inform managers and shareholders and is of crucial importance in decision making, when the interests of both shareholders and creditors must be taken into account. The specifics objectives of the study were to ascertain the effect of financial reporting quality on return on assets, effect of financial reporting quality on return on equity and effect of financial reporting quality on net profit margin all in manufacturing companies in Nigeria. Secondary data was used in this study and Ordinary Least Square (OLS) multiple regression was used to analysed the data with the aid of SPSS version 23 output statistical software. The study employed an ex post factor research design because the data for the study was extracted from annual report and account of the manufacturing companies in Nigerian. A purposive sampling technique was employed to select 10 financial firms listed on the Nigerian Exchange Group as at 31st December, 2023. The study covered a time frame of five (5) years, starting from 2019 – 2023. The study found out that positive relationship between financial reporting quality and returns on assets, a negative relationship between financial reporting quality and returns on equity and a positive relationship between financial reporting quality and net profit margin of selected manufacturing companies. We therefore, recommended timeliness of audited corporate annual financial reports is considered to be a crucial and an essential factor affecting the usefulness of information made available to various users, the use of joint auditors is also encouraged, as the volume of transactions in most Nigerian firms are constantly increasing, the possibility of efficiency and effectiveness in audit might be likely eroded and appointing outside directors to the board is an effective board leadership style to reduce the agency problem and increase reporting quality.

Key words: *Financial Accounting System, Corporate Performance, Financial Reporting Quality, Return on Asset, Return on Equity*

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1. INTRODUCTION

Financial accounting system is concerned with how best to provide useful accounting information to assist decision-makers, an important medium useful for the communication of

accounting information to users of the financial statement. Financial statements are described as the end product of accounting transactions and entries aimed at providing qualitative and quantitative financial information on the performance of organisation in order for users to make informed decisions (Fama & French, 2018). Financial statements provide information on the income and expenses of a company in a fiscal year captured in the statement of profit or loss and other comprehensive income and details of assets and liabilities owed shown in the statement of financial position. The primary objective of financial accounting system is to provide high-quality financial reporting information concerning economic entities, primarily financial in nature, useful for economic decision making in the organization. Providing high quality financial reporting information is important because it will positively influence capital providers and other stakeholders in making investment, credit, and similar resource allocation decisions enhancing overall market efficiency (IASB, 2008). Financial accounting system is a broader concept that not only refers to financial information, but also to disclosures, and other non-financial information useful for decision making included in the report (Beest, Braam, & Boelens, 2019). Financial accounting system is a duty of stewardship assigned to the directors of a company by section 334 of the Company & Allied Matters Act (CAMA); it is equally responsibility of companies to keep accounting records, as contained in section 331 and 382 of the Act. These sections explicitly defined the necessary content and manner in which financial records should be kept (Madu, 2022).

In today's corporate climate, financial information and responsibility have taken on a significant role, a company's financial information can be used by its managers, directors, shareholders, employees, and customers around the world to identify the firm's relative strengths and weaknesses, as well as steps the company may take in the future to capitalize on its strengths and fix its flaws (Zare & Shahsavari, 2022). It is important to note that financial information is a systems that perform the activities of data collection; processing; classifying; and reporting financial occurrences in order to provide relevant information for scorekeeping, attention directing, and decision-making purposes; According to this definition, financial information includes the components and aspects of an organization that offers information to users by processing financial events (Bodnar & Hopwood, 2020). The impact of financial accounting system on the corporate performance of a business organization is becoming more apparent to user groups of a financial statement. Accounting is a not an exact science neither are business operations without some subjective and judgmental errors when it comes to reporting them. A financial accounting system is therefore a document statement which informs the various interest groups to a business on the operations and performance of

their business in a period under review its present state of affairs as well as its anticipated future, in accordance with the statutes. If a financial accounting system is to service its purpose it ought to be characterized by the following such as relevance, understandability, reliability, completeness, objectivity and Timeliness, the organization will reduce taken wrong decisions (Zare & Shahsavari, 2022).

The financial accounting system provided by an organization is considered to be more relevant because it is not absolutely subjective. Again, it is also considered to be more realistic such as rate of return, current assets, inventory level, turnover, profit before tax and interest, marketability, etc which give a partial guarantee on the ability of an investors to invest and contribute to wealth maximization of the firms (Chandra, 2022). To make good judgments, you need accurate and up-to-date financial accounting. Due to a lack of accurate information, most businesses fail. Realistic financial information, however, may only be obtained if directors' management plans for reliable financial accounting system. Getting a loan is a problem for most firms since they have very little money to work with. Growth is tough because of this. As a consequence of their lack of financial information, they are unable to secure a bank loan, which has led to their decline. Some investors and business owners are unable to comprehend the financial information's interpretation approach, and some companies have missed investment possibilities because of this problem.

The rapid expansion of markets and businesses globally, coupled with greater demand for information and transparency among investors, stakeholders and society in general, find their footing in financial reporting quality (Ferrero, 2022). The financial report is expected to show the economic and financial situation of the company, in order to inform managers and shareholders (Moneva & Llena, 2020), and is of crucial importance in decision making, when the interests of both shareholders and creditors must be taken into account. Therefore, a crucial question bothering on the financial reporting quality in Nigeria is its effect on performance of a company. Even companies may generate financial statements in accordance with IFRS, these statements may present differing levels of quality. An attempt is made to answer this question by empirical estimation of the impact of financial accounting system on corporate performance of manufacturing firms in Nigeria.

1.1 Objectives

The main objective of this study is to examine the impact of financial accounting system on corporate performance of manufacturing firms in Nigeria. The specific objectives of the study are to:

1. ascertain the effect of financial reporting quality on return on assets of manufacturing companies.
2. determine the effect of financial reporting quality on return on equity of manufacturing companies.
3. examine the effect of financial reporting quality on net profit margin of manufacturing companies

1.2 Hypotheses

The null hypotheses will be employed in this study.

H_{01}: Financial reporting quality does not have any significant effect on return on assets of manufacturing companies.

H_{02}: Financial reporting quality do not have effect on return on equity of manufacturing companies.

H_{03}: There is no relationship between financial reporting quality and net profit margin of manufacturing companies

2. LITERATURE REVIEW

2.1 Conceptual Review

2.1.1 Financial Accounting System

The financial accounting system is one that is well designed to facilitate the smooth, efficient and uninterrupted flow of data from the point where a transaction occurs through the various stages of data processing to the final stage, thereby culminating in a report. A financial accounting system is made up of three distinct stages which are: Data recording, information summarization and interpretation, and information reporting. The starting point for the financial accounting system is the recording and analysis of transactions (Fama & French, 2018). A definite step is followed in the traditional accounting approach, the steps in the processing and generating of output of the accounting system are: i. Identification and analysis of relevant transitions in the journal. ii. Making entries of the transactions in the journal. iii. Posting from the journal to the ledger. iv. Preparation of trial balance. v. Determining and recording of the adjusted entries in the journal the ledger. vi. Preparation of the adjusted trial

balance. vii. Preparation of the final accounts and statement which are the profit and loss account and the balance sheet. It must be noted that in the emerging business environment where e-commerce is the procedure of doing business, the majority of business are conducted electronically. Whereby transactions happen paperless, it is worthy of note that the steps may not followed sequentially but in essence. They very need for all the step is satisfied in the electronic system. But because accounting focuses on the transactions and the financial information content rather than the steps taken to actualize or document it, accountants have adapted themselves to the current e-commerce business environment and the product which a financial report are still the same.

This convention states that the accountant only records those facts that are expressed in money terms. Any facts, however revenant they may be to the user of the financial information is ignored by the accountant if they cannot conveniently by expressed in money terms. It is often that the greatest asset on effective and efficient business possesses is the work force. So why does the work force never appear on a business balance sheet? The short answer is that it would be extremely difficult to quantify this asset and other resources in money terms (Zare & Shahsavari, 2022) . So the accountant does not bother to try. Facts and outcomes that cannot be expressed in money terms are ignore.

2.1.2 Corporate Performance

In order to meet the expectations of different stakeholders, senior managers continuously strive to improve the performance of their organisations. Generally, organisational improvement processes follow a continuous circle of three major processes, namely corporate planning, strategy implementation (execution) and performance measurement or evaluation (David, 2015). The corporate planning phase involves setting goals and objectives that are congruent with the corporate vision, mission and value statements of the organisation. Goals and strategies are formulated after a careful and critical analysis of the organisation's internal strengths and weaknesses and also of the organisation's external opportunities and threats, conducted through a SWOT analysis, which is also sometimes referred to as corporate analysis. After the corporate analysis, strategies are formulated as a means to achieve the goals that have been set; and that is followed by the implementation of the corporate plans. The implementation phase involves translating plans into action (David, 2015). To put it differently, implementation is the part of the process where strategies are executed. Finally, corporate performance is measured to assess whether or not the goals and objectives that were set in the planning phase have been achieved in the implementation phase. A suitable feedback

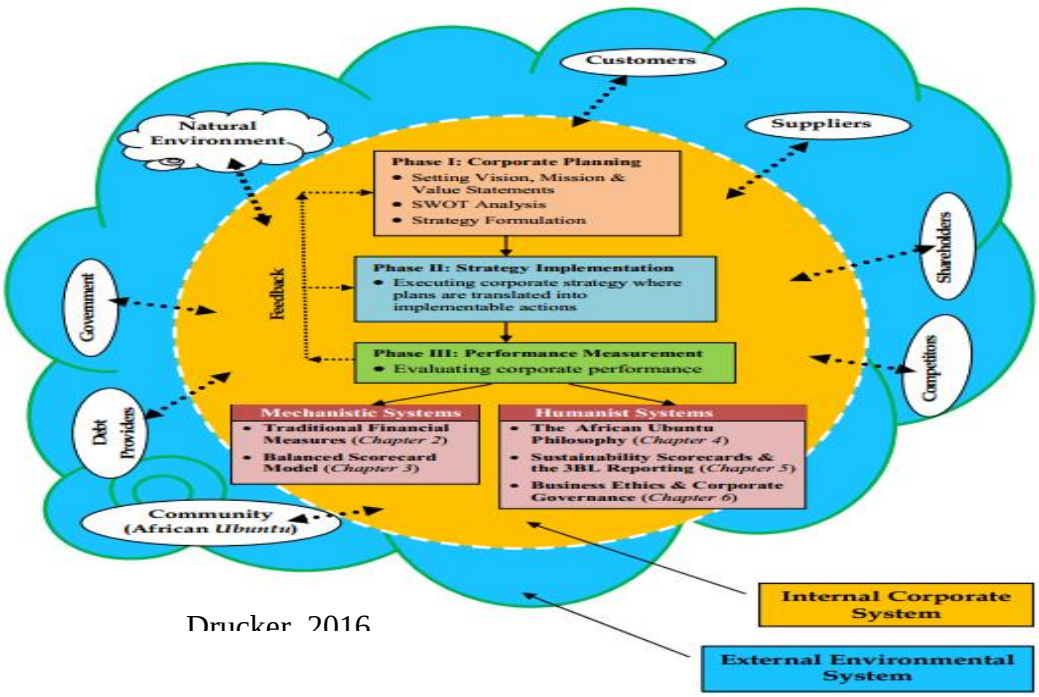
control system enables managers to use the information provided by performance measurement systems to plan further actions to ensure the continuous improvement of the organization.

The researcher's personal observations suggest that performance-based systems usually follow specific prescriptions that are intended to satisfy the needs of primary stakeholders such as shareholders, customers, suppliers and government. In the process, such performance-based systems often alienate other stakeholders, such as the general society, local communities and the ecological systems. In the current study, such prescribed performance-based systems are referred to as mechanistic performance systems, as they are guided by procedures and policies. Corporate performance is compared using ratio analysis, as discussed below. However, the use of financial measures is fraught with many limitations, including their focus on short-termism, which is problematic where management makes short-term decisions that are accomplished at the expense of the long-term sustainability of an organisation (Ali, & Oudat, 2021). The Balanced Scorecard model was developed to overcome some of the limitations of financial measurement systems, which are prone to abuse by executive managers.

2.1.3 The Corporate Performance Framework

The corporate performance framework is based on a stakeholder-centred approach to corporate performance systems, as summarised in Figure 1, below.

Figure 1: Corporate performance framework



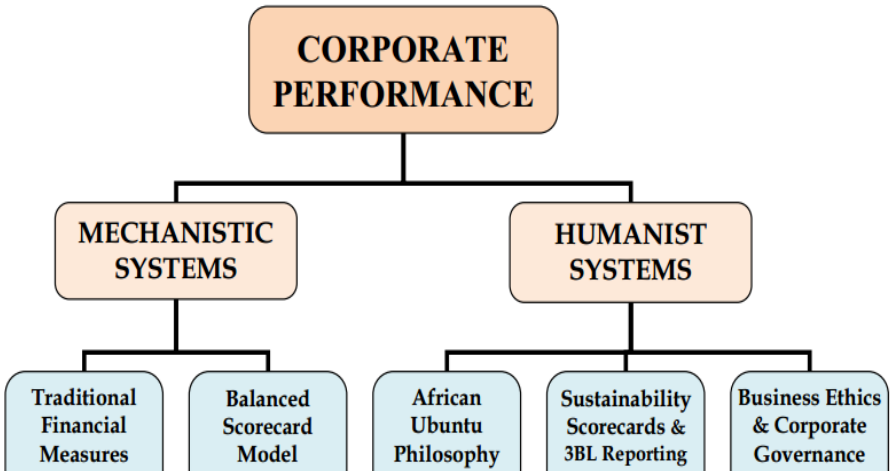
Drucker, 2016

The corporate performance framework summarises organisational interactions with different stakeholders from the external environment. The framework also highlights three components of corporate performance, namely corporate planning, strategy implementation and performance measurement, as discussed above. Finally, for there to be an effective continuous improvement system on corporate performance, an effective feedback control system is needed (Ferrero, 2014). Such an effective control system, expectations and actual performance are compared and such comparisons serve as a basis for determining proper responses to operating results (Ankrah, 2019). Information on the performance measurement has to be fed back into organisational management systems for further management actions. Where there are significant variances between the planned targets and the actual results, managers should institute appropriate adjustments to the planning and implementation processes that form part of the performance system.

2.1.4 Corporate Performance Systems

corporate performance systems, as indicated above. A diagrammatic presentation of the literature review is shown in Figure 2, below. From here on, the highlighted area (green) amongst the five corporate performance systems which are reviewing the relevant component of the system.

Figure 2: Corporate Performance Systems



Drucker,

2.1.5 Implementing Corporate Strategies

The execution of a corporate strategic process involves the translation of plans into action. Organisations get inputs from their environment in the form of financial capital from shareholders, debt capital from financiers, labour capital from the local community and labour markets, and natural resources capital from the natural environment. Through their internal business processes, organisations process and transform these inputs into finished or semi-finished goods and services. During the implementation process, organisations are supposed to use their resources in the most economic, efficient and effective manner.

The efficiency and effectiveness of modern organisational knowledge-creation processes depend partly on the local circumstances that dictate how information is created and disseminated within an organisation. Feedback and information dissemination systems have become essential sources of input into management decisions. The value of information systems has become so pronounced that managers have now started investing massively in new information technologies, in the hope that such investments will help managers to run their corporations more effectively and efficiently for better performance. Modern business practices also dictate that companies have to be ethical in their undertakings. For instance, manufacturing companies have an ethical duty to protect the environment against degradation and pollution (Li, Shao, Zhan, & Zhou, 2023). Once goods and services are produced, they are given back to the environment through customers and consumers for final consumption, thereby completing the ecosystem as shown in the conceptual framework of stakeholder relationships and networks.

2.1.6 Financial Reporting Quality

Financial reporting is a critical issue which affects the decision making process of various individuals, corporate bodies, investors and policy makers (Chen, Hope, Li, & Wang, 2021). According to Glautier and Underdown (2021) the primary objective of financial reporting is to communicate information about the resources held by entity and performances of the reporting entity, useful to those having right to such information. Chen, Hope, Li, & Wang, (2021), stated that financial reports assist the users in evaluating the past and present performance of the organization and its ability to maximize the wealth of the shareholders. Furthermore, it assesses the ability of the firm to create value and objective assessment of the value created overtime. Financial reports highlight financial information which provides insights into these resources held by an organization, the claims to these resources including

the obligation of the firm to transfer resources to other entities and owners and the effects of transactions, events and circumstances that change its resources and claims to these resources. Financial reporting quality requires companies to voluntarily expand the scope and quality of the information they report, to ensure that market participants are fully informed in order to make well grounded decisions on investment, credit, etc. This high quality information facilitates greater transparency and this greater transparency reduces the information asymmetries and satisfies investors and stakeholders' needs (Martínez-Ferrero, 2014).

2.1.7 Return On Asset (ROA)

Return on Assets (ROA) is one of profitability ratios. In the analysis of financial statements, this ratio is most often highlighted, because it is able to indicate company success to create profits. ROA is able to measure the company ability to generate profits in the past to then be projected in the future. Assets in question are overall company properties, obtained from the capital itself or from foreign capital that has been converted into company assets used for corporate sustainability. According to Brigham and Houston (2021), return on asset (ROA) is calculated by comparing available net profit for common shareholders to total assets. Available net profit for common shareholders ROA = Total assets

Higher ROA value indicates better company performance, because of higher return on investment rate. "This value reflects the company's return on all assets (or funding) provided to the company" (Wild et al, 2005). Any factors affecting on Return On Assets are (a). Liquidity Ratio is a ratio to measure a company's ability to meet its short-term liabilities, calculated by comparing its current assets with current liabilities (b). Asset Management Ratio is "The asset management ratio; measures how effectively the company manages its assets" (Brigham and Houston, 2021).

2.1.8 Return On Equity (ROE)

Return on equity (ROE) or also often called by Return On Common Equity, in *bahasa Indonesia* is often translated as Rentability of Own Share (Rentability of Own Capital). Investor to buy the shares will be attracted to this profitability ratio, or part of total profitability that can be allocated to shareholders. As known, shareholders have residual claim on obtained profits. Profit obtained by the company firstly will be used to pay any interest of debts, then preference share, and then (if any) will be given to common shareholders. Return on equity (ROE) is the profitability ratio to measure the company ability to generate profit based on

share capital owned by the company. Return on equity can be calculated as follow (Sartono, 2021).

Return on equity is the ratio of profitability as the second variable in this study. Return on Equity (ROE) is the company's ability to generate profits based on its net capital. This ratio measures the extent to which a company can use its resources to be able to generate a return on equity (Fahmi, 2018). Return On Equity (ROE) is the difference between the amount received and the amount invested, and is divided by the amount invested. According to Tandelilin (2020) return on equity is the second proxy of the profitability ratio which is also an important indicator for investors to get a return that is in accordance with their investment, so the higher the ROE value, the better the company's performance will be and have an impact on increasing the company's stock price. if the stock price increases, the return will increase. ROE can be calculated by Net Income After Tax/Total Equity

2.1.9 Net Profit Margin (NPM)

Net profit margin shows the rate of return on net profits against net sales. Net Profit Margin is a profitability ratio that is used to measure profits achieved compared to sales. The higher the net profit, the more effective and healthy the company will be. This study uses this proxy because if the company is declared healthy seen from the net profit margin, investors will also invest in the company because it is related to the stock returns received by investors, in other words, the net profit margin has an effect on stock returns (Brigham & Houston, 2018).

Net Profit Margin is a financial ratio used to calculate the percentage of profit a company produces from its total revenue. It measures the amount of net profit a company obtains per dollar of revenue gained. The net profit margin is equal to net profit divided by total revenue, expressed as a percentage. Net profit is calculated by deducting all company expenses from its total revenue. The result of the profit margin calculation is a percentage. Revenue represents the total sales of the company in a period.

NPM can be calculated as Net Profit Margin = Net Profit ／ Total Revenue x 100

2.1.10 Firm size (FS)

Firm size has become such a routine to use as a control variable in empirical corporate finance studies that it receives little to no discussion in most research papers, even though not uncommonly it is among the most significant variables (Aisah, & Mandala, 2016). Total assets were used as proxy for this, while logarithmic transformation of the figures was done. Statistical models are sometimes more meaningful and accurate if outcome or predictor variables are transformed, and a common choice for transforming variables is to apply

logarithmic transformation. This may be appropriate when the variable only takes on positive values, and results are easier to interpret than with most other types of transformations.

2.2 Theoretical Framework

2.2.1 Stewardship Theory

Stewardship Theory was developed by Davis, Schoorman, and Donaldson (1997) by using Theories X and Y. This theory assumed that two opposite types of people exist, one of which demonstrates passive work motivation (X theory) and one of which demonstrates active work motivation (Y theory, also called innate goodness theory). These assumptions were used to explain why agency theory mechanisms failed in current society. Agency Theory involves one-sided assumptions regarding managerial behaviour. In the real world, certain managers achieve intrinsic satisfaction or obtain the recognition of others by completing the tasks assigned by their organizations. This desire for self-actualization allows their behaviours to surpass the limitations of money and other incentives.

Stewardship theory holds that certain managers possess innate goodness, pursuing the maximal benefit to shareholders as a primary objective and valuing their commitments toward the organization. In organizations, these managers play the roles of stewards, safeguarding the benefits of the corporation. Manager behaviour is driven by social perceptions and self-achievement. Thus, the self-interests of managers and benefits to the company and all company personnel are mutually linked, and no conflicts arise (Lee & O'neill, 2021).

2.2.2 Disclosure Theory

Disclosure theory is theoretically rooted in economic justifications that disclosure of information underlies agency and information problems, which impeded capital markets optimal allocation of resources. Healy and Palepu (2021) mentioned that there are numerous solutions to the agency problem. Normally, the principals seek to align agents towards an optimal contractual relationship by compensation agreements, which bind management to disclose relevant information. This makes it possible for shareholders to analyse whether the corporation's resources have been managed in the principals' best interests. The disclosure of relevant information in financial reporting can be used to monitor the agent's fulfilment of the contractual agreements as it facilitates the disclosure of events and transactions in which managers behave in a manner that is not in the principals' best interest (Hadi, Ali, Al-shiblawi, Flayyih, & Talab, 2023). The primary objective of an overall corporate reporting is to provide users with useful information to be able to make decisions. The IFRS framework recognises a range of potential uses, but specifically focuses on usefulness in making economic decisions.

2.3 Empirical Review

Gyamera et al. (2023) were able to prove that MAPs boosted the financial performance of firms in Ghana, they did not cover manufacturing sector which is considered as the engine of fast economic growth. The study also covered basic costing and budgeting techniques to the neglect of SMAP as suggested by Ma et al. (2022). Another paper by Adu-Gyamfi and Chipwere (2020) found that budgeting and costing techniques adopted by manufacturing companies in Ghana led to improved financial performance. This study has certain weaknesses. Though responses were obtained from 200 managers, the target population, sample size and sampling technique were not specified, hence it will be difficult for the study to be replicated. Another flaw is that, strategic management accounting practices (SMAP) as recommended by Ma et al. (2022) was not covered.

According to Ma et al. (2022) contemporary studies on MAPs should include SMAP as one of the constructs. The most recent paper sighted on MAPs and FP of firms was the one conducted. Though the study included SMAP as one of the MAPs, its relationship with FP was found not to be significant. Could information technology play a useful moderating role in strengthening this relationship as suggested by the contingency and resource based view (RBV) theories? Based on this gap identified in literature, the impact of the following five sub-constructs of MAPs on the financial performance of manufacturing firms in Ghana will be investigated: strategic management accounting practices (SMAP), performance management systems (PMS), decision support systems (DSS), budgeting systems (BS), and costing systems (CS). The paper will then go ahead to test the moderating role of information technology integration in the connection between MAPs and FP as suggested by the contingency and RBV theories.

Ayaundu and Ogoun (2020) explored the degree to which MAPs applied in a firm are discriminated by the firm's attributes count. The study discriminated four elements of the firm's attributes count viz. firm size, intensity of market competition, level of qualification of accounting staff and advanced production technology. The study adopted the survey research design. The data sourced using the structured questionnaire was analyzed using the Spearman Rank Correlation Coefficient Method. The result of the analysis revealed that: firm size, intensity of market competition, level of qualification of accounting staff and advanced

production technology have a statistically significant relationship with the degree of management accounting practices among manufacturing firms in Rivers state.

Consolata (2019) investigated the effect of managerial accounting practices on financial performance of manufacturing firms with a special focus on manufacturing firms in industrial Area Nairobi, Kenya. The simple random sampling was representative of the population and offers an unbiased selection which was important in drawing conclusions from the results of the study. Regression analysis was used in testing the hypotheses of the study. It was established activity based costing has a significant positive effect on financial performance; budget participation positively and significantly affects financial performance. It was also revealed that long term and short term budget plans have an influence on financial performance.

Austin and Ejike (2019) analyzed the effect of management accounting practices on financial performance of manufacturing companies in Nigeria. This study adopted a descriptive survey design. The data collected was both quantitative and qualitative. Analysis was done using regression analysis. The findings of the study revealed that costing practices, budgeting practices, performance evaluation and strategic analysis have a significant positive effect on the financial performance of selected manufacturing firms in Rivers state. Pradhan, Swain and Dash (2018) examined the relationship between the adoption of various management accounting practices and the impact of such practices on supply chain performance and firm financial performance. The study deployed descriptive survey research design. This research also utilized descriptive-correlation method wherein all measurement indicators were assessed for validity and reliability taking into account the model. This study used the structural equation modelling (SEM) via PLSs for analyzing the data using process measurement and structural model stages. The study revealed that management accounting practices through adoption of various advanced techniques positively and significantly affects the supply chain activity and corporate performance.

Oguntodu and Taiwo (2018) ascertained the impact of management accounting practices on the performances of the fast-food industry in Rivers State. Descriptive research design was applied in the study among 50 staffs of fast food firms. Questionnaire was used in collecting data which was presented in tables. Pearson and linear regression was used in testing the study hypotheses. The result of the study showed that there is a positive relationship between budgeting and effectiveness of fast-food industries in Rivers state and there is a positive relationship between pricing tools and efficiency of fast-food industries in rivers state. It was

concluded that there is a significant relationship, between management accounting practices and performance of fast-food industries in rivers state.

AlKhajeh and Azam (2018) explored the implementation of MAPs in the Small and medium enterprises (SMEs) in Malaysia and focused on identifying the relationship that exists between the MAPs and performance of SMEs. The research made use of stratified random sampling technique in order to ensure that each sub-sample has an equal chance of representation and getting selected. The data collected were analyzed with the use of simple percentage analysis. The study was conducted to determine the extent of the application of MAPs in the SMEs of developing economies and to determine if there is any relationship between the practices and the performance. The results of the study indicate that there is a high acceptance for the basic MAPs, such as budgeting, costing and performance management systems, whereas there is a low uptake for the sophisticated MAPs, such as SMA and DSS.

Gap in Literature

The impact of financial accounting system on corporate performance of manufacturing firms in Nigeria is examined in this study. The study will be conducted using an ex-post facto research approach, which is advantageous when researching variables that require data on previous occurrences. The study's target population will be manufacturing firms in Nigeria, however the accessible population comprised of all manufacturing firms. The research encompassed a period of five years from 2019 to 2023 for 10 manufacturing companies compare to other previous studies that used fewer years. The data collection instrument will be secondary source. We gathered our data from the annual financial reports of ten different manufacturing firms that are listed on the Nigeria Exchange Group as at 31st December 2023 compare to other previous studies that ended their work before 2023. The E-view 14.0 will be used to anaylsis our data compare to other previous studies that used Statistical Package for Social Science for their work to perform descriptive statistics and correlation analyses in this study (SPSS).

3. MATERIAL AND METHODS

The study adopted the *ex post facto* research design. The population of this study consist of all the 49 financial firms listed on the Nigeria Exchange Group as at 31st December 2023. Secondary data was used for the study. And we also made used of other secondary sources of data in this study which were based on lengthily on documented sources such as financial reports and accounts of sample population. Secondary Data covering a period of ten (5) years

(2019-2023). The reason for chosen 2019 as the preparatory year was because, all companies have started to implement the new standards in their financial reporting. Census sample size was by selecting 10 companies from the population. Data collected were analyzed using multiple regressions of ordinary least square (OLS) method of estimation. The study considered corporate performance as the dependent variable (COP). Financial accounting system as the Independent variables (FAS). All the dependent variables will be regressed against the independent variable as well as the control variable.

The functional form of the model is as follows:

$y = \alpha + \beta xROA + \beta xROE + \beta xNPM + \beta xNFMSIZ + \mu$ ……Eqn 1.

FINEXP = Financial Expertise

ROA = Return on Asset

ROE = Return on Equity

NPM = Net Profit Margin

FMSIZ = Firm Size

Y = Coefficient of dependent Variable

α = Intercept coefficient

β = Coefficient for each of the independent Variables

μ = Error term.

Table 1: Descriptions of Variables

S/N	**Variables**	**Definition**	**Type**	**Measurement**
1	ROA	Return of Asset	Dependent	The total assets of the firm
2	FINEXP	Financial Expertise	Independent	1 if the accountant is a chartered and 0 if otherwise (Dummy variable)
3	ROE	Return of Equity	Dependent	Net Income After Tax/Total Equity
4	NPM	Net Profit Margin	Dependent	Net Profit ⁄ Total Revenue x 100
5	FMSIZ	Audit Firm Size	Control	Total numbers of staff in the firm

Source: Researcher, 2024.

The study accepted the alternative hypothesis (H_1) when the T-calculated is greater than the T-critical value, otherwise we reject and accept the null hypothesis (H_0). The t-critical value is at 5% (0.05) significant level and at 10 degree of freedom.

4. RESULT AND DISCUSSIONS

4.1 Data Analysis

4.1 Descriptive Statistics

The summary of the descriptive statistics of the variables are presented in table 2.

Table 2: Descriptive Analysis

Descriptive Statistics of Panel Data					
	N	Minimum	Maximum	Mean	Std. Deviation
Closing Asset	240	-42217000	2104360539000	97980186062.50	244723661059.145
Net Income	240	-7217001000	196678391000	7714162720.83	22980206048.381
Revenue	240	0	1066868054000	46744859982.64	111275279191.731
Closing Equity	240	-1169736000	545064392000	38669278896.83	77688973117.889
Gross Profit	240	-874099000	291287000000	15426091622.96	40252283017.250
Audit Quality	240	0	1	.88	.322
Valid N (listwise)	240				

Source: SPSS Ver. 23

Table 2 shows the Panel (or longitudinal) of various manufacturing firms. Panel data are crosssectional and time-series (Park, 2009). There are multiple entities, each of which has repeated measurements at different time periods (Park, 2009). Shown above is the mean (a measure of central tendency) and standard deviation of the panel data set.

4.2 Test of Hypotheses

4.2.1 Hypothesis One:

H_o: There is a significant effect of financial reporting quality on return on assets of manufacturing companies

Table 3

Descriptive Statistics of Panel Data					
	N	Minimum	Maximum	Mean	Std. Deviation
Closing Asset	240	-42217000	2104360539000	97980186062.50	244723661059.145
Net Income	240	-7217001000	196678391000	7714162720.83	22980206048.381
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Gross Profit	240	-874099000	291287000000	15426091622.96	40252283017.250
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Source: SPSS Ver. 23

Table 3 shows the Panel (or longitudinal) of various manufacturing firms. Panel data are cross- sectional and time-series (Park, 2009). There are multiple entities, each of which has repeated measurements at different time periods (Park, 2009). Shown above is the mean (a measure of central tendency) and standard deviation of the panel data set.

Table 3 f shows that the model classified the data accurately 90.6% of the time for the companies audited by the big four the model classified the data accurately 98.2% of the time (150 out of 126 audited by the big four). Overall on a weighted average basis the model classified the data correctly 90.6% of the time which is greater than the cut off value of 50%. Also the value of 98.2% correct classification for the Big-4 audited companies is greater than the cut off value of 50%. We conclude that the result of the test shows that the model is dependable and reliable and can be relied upon in making inferences. From table 2.1g, the relevant variable is ROA. Also from the table the returns on Assets is positively related to audit quality (B coefficient= 3.313). The table also shows that the relationship is statistically significant at 0.005 level (.015). Thus, we reject the null hypothesis and conclude that there is a significant effect of financial reporting quality on return on assets of manufacturing companies.

4.2.2 Hypothesis Two

H_o: There is a significant effect of financial reporting quality on return on equity of H_o: manufacturing companies.

Table 4 Omnibus Tests of Model Coefficients

	Chi-square	df	Sig.	
Step 1	Step	22.228	3	.000
	Block	22.228	3	.000
	Model	22.228	3	.000

Table 5 Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	95.012a	.116	.242
a. Estimation terminated at iteration number 7 because parameter estimates changed by less than .001.			

Table 6 Classification Tablea

	Observed		Predicted		
			Audit Quality	Percentage Correct	
		0	1		

Step 1	Audit Quality	0	3	15	16.7
		1	1	162	99.4
	Overall Percentage				91.2
a. The cut value is .500					

Table 7 Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1a	FMS	-.210	.384	.299	1	.585	.811
	REV	1.264	.328	14.855	1	.000	3.540
	ROE	-.047	.072	.416	1	.519	.954
	Constant	-7.946	4.146	3.674	1	.055	.000
a. Variable(s) entered on step 1: FMS, REV, ROE.							

Source: SPSS Ver. 23

From the Analysis above, Table 4 shows a chi-square of 22.228 at 3-df, and significance beyond .001 shows that the model is dependable and reliable. Also, from Table 5, the Nagelkerke R Square is 242 this means that 24.2% of audit quality is explained by the independent variables, ROE. Table 6 shows that the model classified the data accurately 91.2% of the time for the companies audited by the big four the model classified the data accurately 99.4% of the time (150 out of 179 audited by the big four). Overall on a weighted average basis the model classified the data correctly 91.2% of the time which is greater than the cut off value of 50%. Also the value of 99.4% correct classification for the Big-4 audited companies is greater than the cut off value of 50%. We conclude that the result of the test shows that the model is dependable and reliable and can be relied upon in making inferences. From Table 7, the relevant variable is ROE. Also from the table the returns on Assets is negatively related to audit quality (B coefficient= -.047). The table also shows that the relationship is not statistically significant at 0.005 level (.519). Thus, we accept the null hypothesis which upheld that there is no significant effect of financial reporting quality on return on equity of manufacturing companies.

4.2.3 Hypotheses Three

H_o: There is no significant effect of financial reporting quality on net profit margin of manufacturing companies

Table 8

Omnibus Tests of Model Coefficients				
	Chi-square	df	Sig.	
Step 1	Step	26.547	3	.000
	Block	26.547	3	.000
	Model	26.547	3	.000

Table 9 Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	90.693a	.136	.286
a. Estimation terminated at iteration number 6 because parameter estimates changed by less than .001.			

Table 10 Classification Tablea

	Observed		Predicted		
			Audit Quality	Percentage Correct	
		0	1		
Step 1	Audit Quality	0	5	13	27.8
		1	1	162	99.4
	Overall Percentage				92.3
a. The cut value is .500					

Table 11 Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a]	FMS	-.089	.430	.043	1	.837	.915
	REV	1.033	.382	7.324	1	.007	2.810
	NPM	.075	.037	4.016	1	.045	1.078
	Constant	-6.877	4.248	2.621	1	.105	.001

Source: SPSS Ver. 23

The Analysis above shows from table 8 that a chi-square of 26.547 at 3-df, and significance beyond .001 shows that the model is dependable and reliable. Also, from Table 9, The Nagelkerke R Square is .286 this means that 28.6% of audit quality is explained by the independent variables, NPM. Table 10 shows that the model classified the data accurately 92.3% of the time for the companies audited by the big four the model classified the data accurately 99.4% of the time (150 out of 179 audited by the big four). Overall on a weighted average basis the model classified the data correctly 92.3% of the time which is greater than the cut off value of 50%. Also the value of 99.4% correct classification for the Big-4 audited companies is greater than the cut off value of 50%. We conclude that the result of the test shows that the model is dependable and reliable and can be relied upon in making inferences. From Table 11, the relevant variable is NPM. Also from the table the net profit margin is positively related to audit quality (B coefficient= .075). The table also shows that the

relationship is not statistically significant at 0.005 level (.045). Thus, we reject the null hypothesis and conclude that there is a significant effect of financial reporting quality on net profit margin of manufacturing companies.

Table 12: Regression Model

Model		Unstandardized Coefficients		T	Sig.
		B	Std. Error		
	(Constant)	6.125	3.15	1.944	.000
	X_1	.223	.070	3.186	.019
	X_2	.257	.091	2.824	.016

Source: SPSS ver. 23.

The regression equation of the study is:

Y = 6.125 + 0.223X1 + 0.257X2

4.2.4 Discussion of Findings

a. From the study, the following summaries were observed. it was specifically revealed that;

1. There is a positive relationship between Financial Reporting Quality and Returns on Assets (ROA) of selected manufacturing firms. The Pearson bivariate results showed that the nature of relationship between Financial Reporting Quality and Returns on Assets was positive and statistically significant; and,

b. **2.** There is a negative relationship between Financial Reporting Quality and Returns on Equity (ROE) of selected manufacturing firms. The Pearson bivariate results showed that the nature of relationship between Financial Reporting Quality and Returns on Equity was negative and nonstatistically significant.

c. There is a positive relationship between Financial Reporting Quality and Net Profit Margin (NPM) of selected manufacturing firms. The Pearson bivariate results showed that the nature of relationship between Financial Reporting Quality and Net Profit Margin was positive and statistically significant.

5. CONCLUSION AND RECOMMENDATIONS

Financial Reporting Quality is a crucial yardstick in determining investors' choices and decisions. A reliable financial reporting would enhance the credibility of these statements. Our findings generally corroborate this. To strengthen Financial Reporting Quality is to ensure Sound Audit on the financial statements and other such like measures to ensure a fair

reporting and rest by the stakeholders of the firm. This study was aimed at providing empirical evidence on the relationship between Financial Reporting Quality and Financial Performance amongst manufacturing companies in Nigeria. The results show a positive relationship between Financial Reporting Quality and Financial Performance.

According to the study's findings, Nigerian manufacturing companies' financial performance is positively impacted by the recording of accounting information system. Poor financial performance will result from inaccurate accounting information recording system, while a company's financial performance will be significantly improved by accurate accounting information recording system. In addition, the study concluded that financial reporting positively influences the financial performance of Nigeria manufacturing companies. Therefore, proper financial reporting will lead to the improved financial performance of Nigerian manufacturing firms in Nigeria.

Based on the findings of this study, the following recommendations are here given:

1. The timeliness of audited corporate annual financial reports is considered to be a crucial and an essential factor affecting the usefulness of information made available to various users. Thus accounting information is required to be made available within a short period of time from the end of the reported period

2. More so, the use of joint auditors is also encouraged, as the volume of transactions in most Nigerian firms are constantly increasing, the possibility of efficiency and effectiveness in audit might be likely eroded. This phenomenon can be curbed through the use of joint Auditing Firms. That is jointly engaging the services of any of the Big-4 Auditing Firms and any other non-multinational Auditing Firms. This will ensure efficiency and timeliness of Audit function and generally guaranteeing the Reporting Quality of companies.

3. Furthermore, appointing outside directors to the board is an effective board leadership style to reduce the agency problem and increase reporting quality. This finding is in agreement with. Where is was asserted that appointing outside directors to the board appears to be an effective corporate governance mechanism to reduce the agency problem and increase earnings quality.

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